



the kroger co.

annual report

1967

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



directors

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The Jeffrey Company

WILLIAM W. BOESCHENSTEIN,
Executive Vice President,
Owens-Corning Fiberglas Corporation

BEN H. CARPENTER, *Chairman of the Board*,
Southland Life Insurance Company

JACOB E. DAVIS, *President*

JOSEPH B. HALL,
Former Chairman of the Kroger Board
President, Cincinnati Redevelopment Corporation

JAMES P. HERRING, *Vice President*
President, SuperRx Drugs

JOHN M. LOCKHART, *Executive Vice President*

ROBERT MONTGOMERY, *Executive Vice President*

T. BALLARD MORTON, JR., *President*,
WAVE, Inc.

JAMES M. PHELAN, *President*,
A. T. Kearney & Company, Inc.

W. GEORGE PINNELL, *Dean*,
Graduate School of Business,
Indiana University

R. NELSON SHAW, *President*,
Mercantile Stores Company, Inc.

EDWARD D. SMITH, *President*,
The First National Bank of Atlanta

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JOHN M. LOCKHART, *Executive Vice President*

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JAMES P. HERRING, *Vice President*

GENE D. HOFFMAN, *Vice President*

BENNETT A. HUDSON, *Vice President*

RICHARD E. KARKOW, *Vice President and Treasurer*

WILLIAM P. RUNYAN, *Vice President*

A. WAYNE SMITH, *Vice President*

JOHN L. STRUBBE, *Vice President*

ARTHUR L. FERGUSON, *Assistant Secretary*

GEORGE A. LEONARD, *Assistant Secretary*

CARL W. BRIESKE, *Assistant Treasurer*

LORRENCE T. KELLAR, *Assistant Treasurer*

JOSEPH C. LAMB, *Assistant Treasurer*

division officers

CLIFFORD E. ARMSTRONG, *President*, Market Basket, Los Angeles

vice presidents

WALTER M. BAKER, Atlanta

ROBERT W. BRAUNSCHWEIG, Meat Merchandising

ROBERT H. BRINKMANN, Wisconsin

R. GUS BUBLITZ, Toledo

F. LELAND DAVIS, Advertising

JACK W. DAVIS, Nashville

THOMAS E. DEWEY, Chicago

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H. ARVILLE FERGUSON, Grand Rapids

JOHN W. FIRTH, Roanoke

EDWARD R. FLOREA, Baked Foods

HOWARD A. GIFFORD, Detroit

EUGENE W. GRINER, Peoria

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RICHARD M. KOSTER, Kansas City

JAMES A. LEROY, Houston

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PAUL P. MOORE, Cleveland

WILLIAM W. OLIVER, Dayton

JAMES B. PARKER, JR., Labor Relations

LEO P. PHILBIN, Indianapolis

ALBERT E. RAIN, Merchandising Control

GERARD J. REUSS, Fort Wayne

ROBERT E. SAFFRON, Cincinnati

NERVILLE A. SAWALL, Dallas

CHESTER B. STERN, St. Louis

HAROLD P. TEMPLETON, Columbus

CHARLES L. THOMAS, JR., Grocery Merchandising

FRANK S. VAMOS, Louisville

CHARLES W. WHITE, Little Rock

the kroger co./annual report 1967

THE KROGER CO. 1014 VINE STREET CINCINNATI, OHIO 45201



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highlights

	1967	1966	change
SALES	\$2,806,073,925	\$2,659,983,151	+ 5.5%
NET INCOME	\$ 25,715,601	\$ 29,382,629	-12.5%
NET INCOME PER SHARE	\$1.98	\$2.28	-13.2%
NET WORTH	\$ 268,656,754	\$ 258,007,102	+ 4.1%
NET WORTH PER COMMON SHARE	\$19.65	\$18.92	+ 3.9%
CAPITAL EXPENDITURES	\$ 48,307,183	\$ 66,626,426	-27.5%
DEPRECIATION AND AMORTIZATION	\$ 29,503,508	\$ 26,426,311	+ 11.6%

To Our Shareowners:

Earnings

Net income in 1967 was \$25,715,601 or \$1.98 per share on the average number of shares outstanding during the year, a decline of 13.2% from the restated \$2.28 per share earned in 1966. Fourth quarter 1967 earnings of 92¢ per share exceeded the comparable 1966 figures by 10¢ or 12.2%.

Lifo charges amounted to 5¢ per share versus 12½¢ per share a year ago. Investment tax credits were equivalent to 18½¢ per share, down from last year's 24¢.

Net income in 1967 included \$721,854 or 6¢ per share which represented the interest of your company in the earnings of several unconsolidated subsidiaries. Results for 1966 are restated to reflect this change in accounting procedure.

Dividends

Dividends of \$1.30 per common share were paid in 1967. The 1968 first quarter dividend of 32½¢, payable March 1, has been declared. Kroger has paid dividends out of current earnings for 66 consecutive years.

Sales

Record sales of \$2,806,073,925 were 5.5% ahead of the 1966 figure. Sales in the fourth quarter were 8.3% over those for the comparable period a year earlier. Average annual sales per food store were \$1,737,482, an increase of \$31,354 from 1966.

Food Stores

The intense competition which has characterized the retail food industry in recent years continued through 1967. To improve our competitive position we introduced lower price merchandising programs in a number of major Kroger marketing areas early in the year. Although the immediate effect was to depress earnings, the favorable response of homemakers to many of these programs is now reflected in the steadily

improving trend of sales and earnings which began in the fall.

Wage rates increased during the year more rapidly than productivity. Major strikes occurred in Chicago, Cincinnati, Cleveland, Detroit and Los Angeles. These strikes were of short duration but their adverse effect on income was pronounced.

We opened 67 new food stores and closed 77 old ones, including 9 in the Washington, D. C. area where operations were discontinued. There were 101 stores remodeled. The average size of new stores was 15,168 square feet. At the end of the year we had 1,483 stores in operation.

Two of the new stores were Kroger Family Centers, larger units of 40,000 to 60,000 square feet featuring food, drugs and general merchandise. We now have 7 Family Centers doing business in Louisiana, Texas, Arkansas and Kansas and have plans for adding more of these stores in the immediate future. Our Thriftown Division operates 5 stores, 60,000 to 75,000 square feet in size, carrying general merchandise exclusively.

Two meat distribution plants were added, bringing the total number to 7, serving 11 retail divisions. These modern facilities enable us to merchandise meat more effectively while maintaining the highest standards of product quality.

Drug Stores

At the end of another year of excellent progress, we had 309 drug stores in operation. There were 66 stores opened and 2 closed. The new store program in 1967 was directed at strengthening our position in existing trading areas rather than entering new markets. Our drug division is represented in 24 states under the SuperRx name. In the New York area we also use the name Sav-On, and in St. Louis, Gasen.

Manufacturing

Improvement of manufacturing facilities proceeded on schedule. The Detroit Dairy was completed and is operating efficiently. The St. Louis Dairy is close to

completion and will start up this spring. At our manufacturing complex in Springdale, Ohio, the raw materials warehouse was completed and work was begun on a sausage plant. Around midyear the Springdale candy plant, one of the most modern anywhere, will be fully operational.

Financial

Working capital was \$87,966,936 at the end of the year, an increase of \$21,027,207 from the previous year end. During 1967 Gromarco Inc. sold \$25,000,000 of its 5¾% twenty-five year notes to institutional investors. The proceeds were used to acquire stores and other real estate facilities from The Kroger Co. These properties were, in turn, leased back to Kroger.

Capital expenditures amounted to \$48,307,183. Stores, related equipment and improvements accounted for \$22,034,746. We spent \$15,102,646 on distribution facilities and equipment, \$9,525,210 in the manufacturing area and \$1,644,581 for miscellaneous items. Depreciation and amortization amounted to \$29,503,508.

Directors

Three new directors bring extensive merchandising experience to our Board. They are T. Ballard Morton, Jr., President of WAVE, Inc. of Louisville; R. Nelson Shaw, President of Mercantile Stores Company, Inc. of New York; and James P. Herring, a Vice President of the company and President of SuperX Drugs.

G. Carlton Hill and T. Spencer Shore resigned from the Board after many years of loyal service. They were valuable directors and we are most grateful to them for the contributions they made to the growth of the company. Their advice and counsel will be missed.

Officers

Richard E. Karkow, Treasurer, was promoted to Vice President for finance. Robert O. Aders, Secretary, became Vice President in charge of law, personnel and

public relations functions. William P. Runyan, Chairman and President of your company's affiliate, Top Value Enterprises, Inc., was named a Kroger Vice President.

Several important promotions were made in division management. Division Vice Presidents assigned to positions of greater responsibility were Jack W. Davis, Nashville; Walter R. Dryden, Charleston; John W. Firth, Roanoke; and Paul P. Moore, Cleveland. Newly designated Division Vice Presidents were Robert H. Brinkmann, Wisconsin; R. Gus Bublitz, Toledo; Eugene W. Griner, Peoria; John W. Marsh, Pittsburgh; and Charles L. Thomas, Jr., Grocery Merchandising. These men are young, competent and aggressive.

After long periods of outstanding Kroger service, Paxton C. Judge, Roanoke Division Vice President, and Arnold C. Scherz, Charleston Division Vice President, retired during the year.

Summary

1967 was a difficult year. For the first three quarters the earnings trend was unfavorable. During the last quarter results improved significantly as many of our new merchandising programs and processing operations began to produce according to plan.

During the year Kroger people in all areas of the business put forth extra effort. They were determined to do their jobs better and dedicated to the improvement of results. We are proud of this Kroger team and grateful to them.

We expect to maintain the current upward trend in sales and earnings and make 1968 a good year for Kroger.

Sincerely,



February 9, 1968

President

consolidated balance sheet

december 30, 1967 and december 31, 1966



assets

	Dec. 30, 1967	Dec. 31, 1966
Cash.....	\$ 42,922,156	\$ 37,717,692
Receivables.....	23,299,300	19,426,353
Inventories (Note 2).....	205,119,506	183,995,027
Store and general supplies.....	8,191,994	7,323,681
Prepaid and miscellaneous assets.....	7,544,418	7,717,730
TOTAL CURRENT ASSETS.....	287,077,374	256,180,483
Investments in and advances to unconsolidated companies (Note 1).....	8,638,060	7,485,605
Land, buildings and equipment, at cost or less.....	333,491,414	334,637,887
Less allowance for depreciation.....	(144,805,501)	(134,486,448)
Leaseholds and leasehold improvements, net.....	49,233,787	48,598,134
Excess of cost of investments in consolidated subsidiaries over equities in net assets.....	14,047,471	13,325,279
TOTAL ASSETS.....	\$547,682,605	\$525,740,940

liabilities

	Dec. 30, 1967	Dec. 31, 1966
Accounts payable.....	\$132,004,431	\$121,791,915
Accrued expenses.....	50,470,708	46,547,177
Accrued federal taxes.....	14,208,299	18,594,662
Long-term indebtedness (Note 3).....	2,427,000	2,307,000
TOTAL CURRENT LIABILITIES.....	199,110,438	189,240,754
Long-term indebtedness (Note 3).....	31,028,000	33,455,000
Deferred federal income taxes.....	30,500,000	30,125,000
Deferred investment credit.....	1,343,000	1,633,000
Employees' benefit fund (Note 4).....	17,044,413	13,280,084
CAPITAL		
Preferred capital stock:		
First preferred, par \$100.....	24,000	24,000
Cumulative preferred, voting, par \$50 (Notes 5, 6 and 7)		
Authorized: 750,000 shares		
Outstanding: Series A; 1967—461,771 shares;		
1966—461,821 shares.....	23,088,550	23,091,050
Common capital stock, par \$1 (Notes 6 and 7)		
Authorized: 18,000,000 shares		
Issued: 1967—12,887,075 shares;		
1966—12,885,827 shares.....	62,086,990	62,061,519
Accumulated earnings (Note 3).....	197,328,052	188,782,450
	259,415,042	250,843,969
Less, common capital stock held in treasury, at cost:		
1967—390,172 shares; 1966—470,594 shares.....	13,870,838	15,951,917
	245,544,204	234,892,052
TOTAL CAPITAL.....	268,656,754	258,007,102
TOTAL LIABILITIES AND CAPITAL.....	\$547,682,605	\$525,740,940

The accompanying notes are an integral part of the financial statements.

consolidated statement of income

Years Ended December 30, 1967 and December 31, 1966

	1967	1966
Sales	\$2,806,073,925	\$2,659,983,151
Cost of sales	2,252,520,493	2,135,174,190
Operating, general and administrative expenses	506,052,685	473,194,176
Total	2,758,573,178	2,608,368,366
Operating profit	47,500,747	51,614,785
Interest expense	3,785,000	3,213,091
Income before federal taxes	43,715,747	48,401,694
Federal income taxes	18,722,000	19,885,000
Income after taxes	24,993,747	28,516,694
Equity in net income of unconsolidated companies (Note 1)	721,854	865,935
Net income	\$ 25,715,601	\$ 29,382,629
Net income per share of common stock (Note 8)	\$1.98	\$2.28

consolidated statement of accumulated earnings

Years Ended December 30, 1967 and December 31, 1966

Accumulated earnings—Beginning of the year:

As previously reported	\$ 184,068,980	\$ 172,750,812
Adjustment arising from retroactive change in accounting principles (Note 1), amount is cumulative for 1967	4,713,470	3,805,592
As restated	188,782,450	176,556,404
Net income for the year	25,715,601	29,382,629
	214,498,051	205,939,033
Dividends:		
Preferred	994,263	994,195
Common	16,175,736	16,162,388
	17,169,999	17,156,583
Accumulated earnings—End of the year (Note 3)	\$ 197,328,052	\$ 188,782,450

The accompanying notes are an integral part of the financial statements.

notes to financial statements

1. The consolidated financial statements include the company and all of its domestic subsidiaries except Top Value Enterprises, Inc., and one other company which is not significant.

Investments in and advances to unconsolidated companies:

Domestic subsidiaries and fifty per cent owned companies, at cost plus share of undistributed earnings since acquisition (approximates equity in net assets)	\$ 7,700,060
Foreign subsidiaries, at cost	938,000
	<u>\$ 8,638,060</u>

During the year the company changed from the cost method to the equity method for recording its investments in domestic unconsolidated subsidiaries and fifty per cent owned companies using the preceding fiscal year ends for all companies not on a calendar year closing. For the purpose of comparability, 1966 has been restated to reflect this change in method; net income per share increased \$.06 for both years.

2. Inventories are valued at the lower of cost, in part on a Lifo basis, or market.

3. Long-term indebtedness:

3.1% notes maturing in 1971	\$ 9,100,000
4¾% notes, 70% maturing in 1978, 30% maturing in 1979	8,150,000
4.8% notes maturing in 1981	13,500,000
5½% notes maturing in 1977	1,500,000
Other	1,205,000
	<u>33,455,000</u>
Less, amounts due within one year	2,427,000
	<u>\$31,028,000</u>

Under certain of the loan agreements, payments of cash dividends are limited. At December 30, 1967, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$98,579,580.

4. The company and certain of its subsidiaries have a noncontributory retirement income plan for eligible employees. A change in 1967 from the terminal accrual basis of accounting to an actuarial cost method had the effect of reducing net income by approximately \$1,200,000. The actuarial cost method adopted provides for the recognition of current service costs plus interest on and amortization of past service costs over a period of forty years. The actuarially computed value of vested benefits as of December 31, 1966 exceeded

the balance sheet accrual by approximately \$10,200,000. The total expense was \$10,300,000 for 1967. The company is not presently funding the plan.

5. As of December 30, 1967, 475,016 shares of the authorized Cumulative Preferred Shares are designated Series A. These shares provide for annual dividends of \$2.15 per share; conversion into Common Stock, until September 30, 1973, at one and one-half shares for each share of preferred; and redemption at \$55 per share to September 30, 1968, and \$50 per share thereafter, plus accumulated and unpaid dividends.
6. Options to officers and executives to purchase 510,365 shares of Kroger Common Stock were in force at December 31, 1966. Option transactions during 1967 may be summarized as follows: granted 51,000 shares; exercised 1,173 shares; expired or cancelled 56,667 shares. Options to purchase 503,525 shares (at prices ranging from \$20.31 to \$41.56 per share) were in force at December 30, 1967. Shares available for option at the beginning and close of the year were 43,100 and 23,100, respectively. Options for 267,466 shares were exercisable at December 30, 1967. Options to Market Basket employees to purchase 3,891 Kroger Cumulative Preferred Shares, Series A, were in force at December 31, 1966. Option transactions during the year 1967 may be summarized as follows: expired or cancelled 397 shares. Options to purchase 3,494 shares were in force at December 30, 1967. There were no shares available for option at the beginning or close of the year. Options for 3,494 shares were exercisable at December 30, 1967.
7. At December 30, 1967, 697,898 shares of authorized Common Stock are reserved for conversion of Cumulative Preferred Shares, Series A.
8. Net income per share of Common Stock is based on the average number of shares outstanding during each year after recognition of the dividend requirements on the preferred shares.
9. The company operates principally in leased premises. Aggregate minimum annual rentals are approximately \$47,560,000 of which \$34,490,000 relates to leases outstanding at December 30, 1967, and expiring subsequent to 1972. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase.

report of certified public accountants

To the Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 30, 1967, and the related consolidated statements of income and accumulated earnings and the consolidated statement of sources and uses of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements for the year 1966, which were previously examined and reported upon by us, have been restated to reflect the change in method

of recording the investments in unconsolidated domestic subsidiaries and fifty per cent owned companies as described in Note 1 to the financial statements.

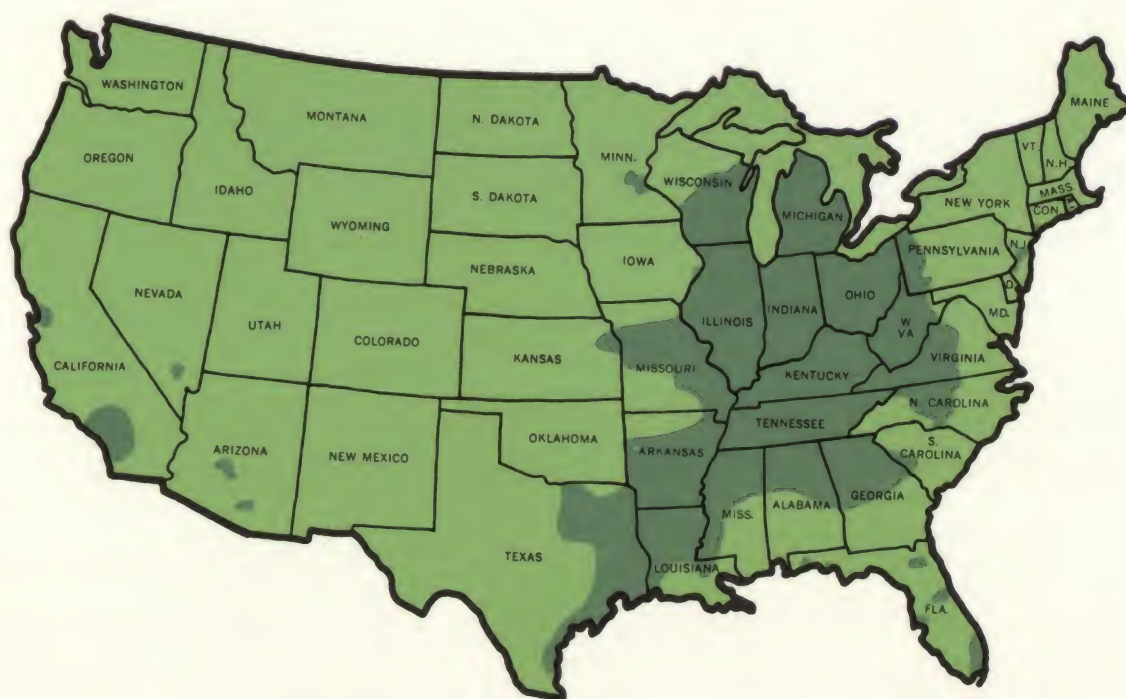
In our opinion, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 30, 1967, and December 31, 1966, and the consolidated results of their operations and sources and uses of funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, in which we concur, referred to in Note 4 to the financial statements.

Cincinnati, Ohio
February 9, 1968

John R. Low *James W. Montgomery*

sources and uses of funds

	Year Ended	
	Dec. 30, 1967	Dec. 31, 1966
SOURCES OF FUNDS		
From current operations:		
Net income for the year.....	\$ 25,715,601	\$ 29,382,629
Charges to income not requiring funds:		
Depreciation and amortization.....	29,503,508	26,426,311
Provision for employees' benefit fund—net.....	3,764,329	3,576,737
Provision for deferred income taxes.....	375,000	(705,000)
Capital stock issued under stock option plans and for acquisitions....	2,104,050	309,737
Sale of capital assets subsequently leased back.....	25,000,000	4,587,496
Net book value of capital asset disposals.....	5,288,962	2,650,793
Total Sources.....	\$ 91,751,450	\$ 66,228,703
USES OF FUNDS		
Capital expenditures.....	\$ 48,307,183	\$ 66,626,426
Dividends paid.....	17,169,999	17,156,583
Purchases of treasury stock.....	—	3,289,308
Reduction in long-term indebtedness.....	2,427,000	2,348,000
Other changes—net.....	2,820,061	278,281
Total Uses.....	\$ 70,724,243	\$ 89,698,598
NET CHANGE IN WORKING CAPITAL.....	\$ 21,027,207	\$ (23,469,895)
Working capital, beginning of the year.....	66,939,729	90,409,624
WORKING CAPITAL, END OF THE YEAR.....	\$ 87,966,936	\$ 66,939,729



COMMON STOCK

TRANSFER AGENTS
The First National Bank,
Cincinnati
Bankers Trust Company,
New York

REGISTRARS
The Central Trust Company,
Cincinnati
Chemical Bank New York
Trust Company, New York

CUMULATIVE PREFERRED STOCK—SERIES A

TRANSFER AGENT
The First National Bank,
Cincinnati

REGISTRAR
The Central Trust Company,
Cincinnati

10 year statistical summary



for the year

	SALES	NET INCOME BEFORE TAXES	NET INCOME (2)	NET INCOME PER SHARE (1) (2)	DIVIDENDS PER SHARE (1)	RETAINED EARNINGS (2)
1967	\$2,806,073,925	\$43,715,747	\$25,715,601	\$1.98	\$1.30	\$ 8,545,602
1966	2,659,983,151	48,401,694	29,382,629	2.28	1.30	12,226,046
1965	2,555,109,466	56,112,137	31,302,137	2.42	1.22½	14,910,452
1964	2,327,563,209	54,449,271	27,923,271	2.14	1.12½	12,695,198
1963	2,102,106,248	45,083,898	22,078,898	1.73	1.10	7,910,912
1962	1,947,570,909	44,219,055	20,424,055	1.62	1.10	6,578,540
1961	1,842,342,667	35,035,685	16,952,685	1.34	1.10	3,094,323
1960	1,870,289,637	48,218,029	23,478,029	1.87	1.10	9,732,605
1959	1,911,902,467	54,137,920	25,516,920	2.06	.95	13,751,230
1958	1,776,175,147	44,432,930	21,629,930	1.76	.72½	12,739,263

at the year end

	CASH	INVENTORIES	WORKING CAPITAL	NET FIXED ASSETS	ACCUMULATED EARNINGS (2)	NET WORTH (2)
1967	\$42,922,156	\$205,119,506	\$87,966,936	\$237,919,700	\$197,328,052	\$268,656,754
1966	37,717,692	183,995,027	66,939,729	248,749,573	188,782,450	258,007,102
1965	40,392,438	184,344,146	90,409,624	216,012,711	172,750,812	244,958,043
1964	54,202,675	169,500,867	102,271,879	198,357,132	157,840,360	235,238,796
1963	50,679,173	156,420,181	93,949,169	190,954,622	145,145,162	224,592,415
1962	55,925,833	131,832,323	82,085,737	174,684,454	137,234,250	194,303,798
1961	64,004,006	121,395,266	95,694,906	169,967,219	130,655,710	188,884,685
1960	47,354,159	118,783,384	77,681,795	164,214,971	127,561,387	185,077,175
1959	52,865,583	118,862,668	93,854,922	145,970,482	117,828,782	173,461,086
1958	52,566,148	116,628,932	86,679,309	130,504,808	104,077,552	158,573,593

	NET WORTH PER COMMON SHARE (1) (2)	NUMBER OF SHAREOWNERS	NUMBER OF EMPLOYEES	NUMBER OF FOOD STORES	ANNUAL SALES PER FOOD STORE	TOTAL FOOD STORE AREA (Sq. Ft.)
1967	\$19.65	52,885	44,604	1,483	\$1,737,482	24,209,422
1966	18.92	45,411	41,462	1,493	1,706,128	24,095,663
1965	17.72	40,804	39,997	1,458	1,666,619	23,196,320
1964	16.81	41,602	39,785	1,431	1,582,359	22,295,587
1963	15.94	42,904	39,130	1,424	1,476,223	22,026,900
1962	15.39	39,936	37,440	1,364	1,433,091	19,841,911
1961	14.96	36,368	37,308	1,354	1,349,702	18,939,624
1960	14.75	35,663	39,691	1,372	1,357,249	18,264,615
1959	13.97	34,972	40,157	1,393	1,357,885	17,392,580
1958	12.87	28,514	40,500	1,428	1,257,914	16,805,232

(1) Adjusted for 3 for 1 split in 1958.

(2) See notes 1 and 8 to financial statements. 1965 and prior years have not been restated.

